

Regeneration, Community and Culture Overview and Scrutiny Committee

BRIEFING NOTE – No. 05/15

Date: 21 December 2015

Briefing paper to: All Members of the Regeneration, Community and Culture
Overview & Scrutiny Committee

Purpose:

To inform Members of the progress of the Financial Conduct Authority (FCA) in addressing high cost, short term credit.

1. Background

- 1.1 Medway Council undertook a report into the issue of high cost, short term credit in the High Street and the potential actions that could be implemented to protect local residents from unfair trading practices.
- 1.2 On the 1 April 2013, the Financial Conduct Authority (FCA) became responsible for the conduct supervision of all regulated financial firms. The FCA took over responsibility for the regulation of 50,000 consumer credit firms from the Office of Fair Trading on 1 April 2014.
- 1.3 This change in the regulatory body responsible for high cost, short term credit was seen as a positive action in addressing the issues of high cost, short term credit.
- 1.4 Firms must be authorised by the FCA, or have interim permission, to carry out consumer credit activities. Firms with interim permission need to apply for authorisation in an allocated application period which lasts for three months and runs from 1 October 2014 to 31 March 2016.

2. Update on the actions of the Financial Conduct Authority

2.1 The FCA has already substantially altered the High Cost, High Street Loan market place. It has implemented a suite of new controls to shift the trade sector.

2.2 The FCA implemented new rules on agreements to afford consumers greater protection, these controls include:

- A cap on interest and fees of 0.8% on high cost, short-term credit.
- Default fees are capped at £15. Interest on unpaid balances and default charges must not exceed the initial interest rate.
- A total cost cap of 100%, borrowers must never pay more in fees and interest than the amount borrowed.
- A thirty day loan, paid on time, will never attract more than £24 in fees and charges per £100 borrowed.
- Payday lenders and other firms offering high-cost short-term credit must now limit the extension of loans to two rollovers.

2.3 The FCA has stressed the need for lenders in the market place to participate in the *real time sharing of data* to enable them to accurately assess potential borrowers fitness to repay a prospective loan. The FCA has stated progress in this area is in line with their expectations and that the matter will be kept under review.

2.4 Martin Wheatley, the FCA's chief executive officer has claimed these new rules:

'Strike the right balance for firms and consumers. If the price cap was any lower, then we risk not having a viable market, any higher and there would not be adequate protection for borrowers.'

'For people who struggle to repay, we believe the new rules will put an end to spiraling payday debts. For most of the borrowers who do pay back their loans on time, the cap on fees and charges represents substantial protections.'

- 2.5 Medway Council has approached the Financial Conduct Authority on the exact figures of the regulated businesses operating within the Authority but the FCA were unable to isolate this geographical data.

Information on the full the rules and guidance of the Financial Conduct Authority is available in their online handbooks,
<https://www.handbook.fca.org.uk/>

3. Summary

- 3.1 The high cost, short-term credit marketplace has moved on considerably from the initial report produced by Medway Council. This trade sector and the vulnerable customers that access this product type will always remain an area of concern. The work undertaken by Medway Council in the report into this topic, and the Council's responses to the Government's consultations, must be seen as positive actions which have contributed to a better regulation this trade sector.
- 3.2 The Financial Conduct Authority are aware of the dynamic nature of the high cost, short term credit market and are maintaining close scrutiny of this marketplace. They have stated that there will be a review of the price cap in the first half of 2017.

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